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Purchasing in the new millennium
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ABSTRACT: Twenty years ago, supply chains did not exist. From design to delivery, manufacturers relied on no one but their own good workers to enrich the bottom line. Supply networks, a true paradigm shift, are the new reality, and they must be managed. Sourcing is in the spotlight because CEOs are beginning to appreciate the impact of purchased goods and services on profitability. Electronic purchasing reduces costs, produces more complete data for both buyers and sellers, saves time, and enhances security. Regardless of the structure a company chooses for its electronic purchasing operation, new tools and solutions continually streamline the process. Electronic summaries of purchases will automatically integrate and reconcile with bank statements. Analysis of budget and spending patterns will be a snap.
TEXT: Headnote:

LEARN THE TECHNOLOGY RELY ON SUPPLY NETWORKS AND PRODUCE WHAT YOU CAN SELL, AND YOU WILL THRIVE IN THE NEXT CENTURY.

Technology for business changes every day, but don't let that throw you. The key to effective purchasing still is, and always will be, good sourcing management. Twenty years ago, supply chains didn't even exist. Vertically integrated companies built their own parts, made their own products, and shipped them out to retail customers. From design to delivery, manufacturers relied on no one but their own good workers to enrich the bottom line.

Supply networks, a true paradigm shift, are the new reality, and they must be managed. Sourcing is in the spotlight because CEOs are beginning to appreciate the impact of purchased goods and services on profitability. Purchasing executives with proven track records are suddenly in great demand; Daimler-Chrysler even promoted its top purchasing officer to president of the company.

Now, to add a layer of complexity, technology rules. Paperbased processes have fallen away, victims to electronic procurement which can virtually transform a company's entire purchasing operation. The new processes must be selected and used discriminately, however, or they can bog down a company's purchasing, instead of enhancing it. "Management needs to be really focused on how these technologies can positively impact the firm," says Scott Shemwell, director of oil and gas for MCI Systemhouse. "Simply automating a process or implementing the same process as a competitor does not guarantee competitive advantage. Capitalizing on the core competency of the firm and focusing on new technologies to further secure that core competency is the right thing to do."

Business-to-business purchasing is quickly becoming an allautomated endeavor. Electronic purchasing reduces costs, produces more complete data for both buyers and sellers, saves time, and enhances security. The process is fundamentally straightforward: Employees click onto product listings of preapproved suppliers and select goods and services to purchase. Internet-based supplier sites are, in effect, customized storefronts. "The Internet offers tremendous possibilities to manufacturers," says Mark Lichtman, president of ZenaComp Inc., an information technology consulting company. "No longer is the manufacturer economically limited to targeting major accounts or selling a few of their products through a distributor's catalog. The ability to bring new products to market is not constrained by the time it takes to design, create, and distribute thousands of product catalogs on paper or other hard media. The speed of new product innovation is certainly a differentiator now and will continue to be a strategic differentiator into the future."

Some companies opt for a more restrictive purchasing route: an intranet, which entails the installation of electronic purchasing software that can be accessed only by authorized staff; preapproved suppliers are allowed access as well. Intranets are gaining in popularity because they are secure, closed systems that can be customized for the purchasing organization and easily integrated into most existing systems.

Extranets, on the other hand, are less restrictive and more economical in the short run than intranetsand thus also are becoming more common. An extranet is a proprietary network of several companies, linked on a network and using existing servers, e-mails, clients, and browsers. Extranets cost-effectively allow manufacturers to band together and purchase in greater quantities than they would as individual companies.

Regardless of the structure a company chooses for its electronic purchasing operation, new tools and solutions continually streamline the process. One of the most successful is an idea that American consumers embraced decades ago: the purchasing card.
In short, a purchasing card is a charge card. Companies use it for business-to-business transactions and, in the process, save money by replacing traditional, paper-based purchase order and invoice procedures. More than 60 percent of Fortune 1000 companies-International Paper, Hewlett Packard, IBM, Intel, and Coca-Cola among them-use purchasing cards for about $20 billion in annual spending. And the industry is doubling every year, according to Marcie Verdin, VISA-USA's vice president, purchasing cards.

"The card provides the ultimate balance between flexibility and control,"

says Verdin. "The traditional process requires each transaction to be reviewed, which is ineffective and costly. Controls can be customized at the employee, department, division, or company level." Savings, she reports, vary widely but average about $60 per transaction; some companies that are veteran purchasing card users claim to have decreased their procurement spending by as much as 5 percent in some commodities.

Another innovation is the fullservice Web site, such as www.milpro.com, an e-commerce site developed by ZenaComp that offers some 50,000 metalworking products manufactured by Milacron Inc. The site goes beyond direct selling to provide approximately 117,000 machineshop purchasers the kind of value-added services customarily reserved for large customers.
Milpro.com acts as an expert adviser, helping customers select the best product for their unique situation; it also helps customers quote their jobs by supplying time studies, cost analyses, and other technical information, and provides immediate-response online problem-solving assistance.

It's been said that the Internet's greatest impact will be a virtual leveling of the playing field in all industries. Toward that end, the United Nations has partnered with Dun & Bradstreet to launch the Code Management Association (CMA), the first global coding system. By assigning a digital code to goods and services, CMA (which merges the UN's Common Coding System with Dun & Bradstreet's Standard Products and Services Codes) brings global standardization to manufacturing and helps companies in developing countries enter the global market.

The codes vary from two to eight digits. Any company that needs, for instance, bicycle chains, can access the coding system and identify bicycle chains and their suppliers from all over the world, then compare prices and specifications. Suppliers have an expanded marketplace at their fingertips.

"The system is multilanguage and, with about 8,500 separate codes, covers every commodity in existence," says Andre Dahan, president of Dun & Bradstreet U.S. "If you went on the Internet and searched with a word such as 'heater,' you'd get millions of hits-from nuclear generators to space heaters. With this commodity code, you get a hit that's much more precise."

The codes also will help companies ensure security in purchasing, Dahan explains. "You can have a person in government procurement ordering office supplies from Staples, for instance, but the invoice doesn't show the line items. Did he buy ballpoint pens for the office, or a personal computer for himself? Traditional purchasing sometimes lacks safeguards. This coding system gives parameters in purchasing; it specifies who can make which purchasing decisions, and halts the process if additional approval is required.'

Not every innovation on the purchasing landscape is about technology, however. One of the biggest changes is about attitude.

"Once a buzzword, 'coopetition' is becoming ever-present," says Scott Shemwell. "As companies start working much more closely with suppliers and customers, including putting them both on the same new product development team, trust becomes increasingly important. Access to core competencies of both the supplier and the customer, including connecting computer systems and sharing information, will become the norm."
Shemwell suggests easing into such closeness by simulating process

integration before the company commits to actually integrating. "Much like 'flying' an aircraft simulator," he says, "you can experiment with little cost and a lot less risk before you actually make changes."

Another expert suggests that cooperation and competition need not be tradeoffs. 'A wise company can accomplish both simultaneously," says Timothy M. Laseter, vice president of BoozAllen & Hamilton and author of Balanced Sourcing: Cooperation and Competition in Supplier Relationships. 'A lack of cooperation with suppliers wastes money, some from unnecessary costs such as excess inventory or wasted development efforts, all resulting from inadequate communication. Other waste takes the form of lost opportunitiesunderinvestment in new equipment or facilities, or a hesitancy to pursue, or simply share, new product concepts."

Laseter cautions manufacturers, though, against cooperation for its own sake. "Some companies today pursue 'supplier partnership' as the objective rather than the means. Cooperation with suppliers provides a means for delivering more value to the end consumer, which translates to a better bottom line. Cooperate where there is a real value-not just for the sake of relationships."
Electronic commerce, in the new millennium, promises to facilitate those relationship changes, and more. "The lines between manufacturers and their suppliers, and manufacturers and their customers, will blur to achieve supply-chain efficiencies," predicts Mark Lichtman. "It will not be uncommon for a customer to have access to the manufacturer's systems to help collaborate in the design process, or for customers to track the status of their own orders."

Paper will no longer change hands. Electronic purchasing will continually provide more value and efficiency. Electronic summaries of purchases will automatically integrate and reconcile with bank statements. Access to data-within companies and among outside relationshipswill be as free as a company wants it to be, opening the door to constant product, service, and delivery improvement by every entity in the supply chain.

Analysis of budgets and spending patterns will be a snap, enabling purchasing managers to oversee their responsibilities in a big-picture context and plan for a more profitable future. All that purchasing managers and executive officers need do is to learn their options and start experimenting and integrating. Change is as good for company morale as for the bottom line, says Timothy Laseter: "Study your company's needs and launch a small pilot program. Pilots provide a means for generating momentum around change. They get people directly involved in creating the future, and those people can become advocates or disciples for further change."

And, Laseter adds, don't let technology confusion-or costskeep you from launching changes that will make you competitive in the new millennium. XI have heard too many arguments to delay plans for addressing outside purchasing until after completion of some systems implementation effort," he says. "Waiting . . . to install a system can involve a huge opportunity cost. Make selective investments in information technology, yes-but don't let your information technology needs stop you from getting started."

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